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California Energy Commission, Docket Unit
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These comments are submitted by Northern California Community Technologies, LLC (NCCT), a California Limited Liability Corporation that develops and operates Local Distributed Electricity Networks™.

Historically, attempts to develop community based electrical systems offering attractive pricing, reliable service and environmentally sustainable programs have been frustrated by the overwhelming barriers to entry raised by the investor owned monopolies.

Recent advances in electrical technology and information networks place in question the economic and reliability relevance of the industrial age approach of building massive central power stations and extensive high voltage circuitry financed through huge monopolies. California is a world leader in the creation of the information age economy. The opportunity exists to transfer this leadership position to electricity and in so doing, create a new model that blends the best features of local community control, State coordination and private enterprise innovations.

NCCT submits the attached three observations in support of the CEC's efforts to articulate a State electricity strategy.

We strongly encourage CEC investigation of a strategy that fosters public/private partnerships capable of implementing innovations in technology and software networks to achieve local and State goals for price, price stability, reliability and environmental sustainability. Successful articulation and implementation of such a strategy affords California a "breakout" path beyond the current quagmire of IOU monopoly control, prices that materially exceed national levels, unacceptable reliability problems and uncertain implementation of sound environmental policy.

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Observation 1 Strategy Void

Despite the massive efforts at planning and strategy development undertaken by California during the 1990's there is currently no unifying strategic vision in place that articulates a path beyond the current situation of utility bankruptcy, utility bailouts, the financial risks of State commodity purchases, a creditable role for the ISO, a failed PX and the expiration of both retail competition and an obligation to serve.

The current strategic void leaves the State in a perilous situation where suppliers have no means to assess future conditions for investment and where consumers are literally in the dark on consumption planning. Future implications are volatile swings in supply between blackouts and glut, the highest electricity prices in the nation and extreme price volatility based upon short term, reactive market behavior by suppliers and consumers.

Therefore, NCCT commends the CEC for advancing a new State electricity strategy.

And because of the anticipated damage that can be caused by the current strategic void, NCCT strongly encourages the CEC to act boldly and quickly in articulating its vision for a State electricity strategy.

Observation #2 PG&E, SCE and Sempra have failed

Despite the anticipated strong counter arguments from the State's existing IOUs, the facts are in and the IOUs have grossly failed in representing the best interests of the State. The 1990's performance record of California's IOUs documents their almost exclusive focus upon their financial self-interest. And this track record provides little encouragement that these IOUs will "reform" themselves during the 21st Century into providers of attractively priced, reliable and environmentally sustainable electricity service.

During the 1990's we have seen the IOUs foster a pool based energy supply system that was almost exclusively self-serving. This system, inaccurately defined by the IOUs as retail competition, in fact subverted competition by setting prices for ALL potential competitors, therefore actually removing price as a means for differentiating between competitors. The result was that without a price incentive, retail customers really had to reason to consider an offer from a potential competitor to the IOUs' retail service, thereby serving the self-interest of the IOUs in maintaining their retail monopoly.

This same system also served the IOUs financial interests through the creation of a massive new cash flow invented by IOUs around a concept they called 'strained assets". This IOU accounting approach allowed them to claim losses based upon untested assumptions that competition would devalue their investments made under their regulated monopoly obligation to serve. To recover these perceived losses the IOUs were allowed to charge a massive new tariff. The end result for the State is that the IOUs have earned billions of dollars in accelerated cash flow but now seek financial protection from the State's legislature and/or bankruptcy court.

Also during this period there has been documentation of under investment and expedient, self-serving operational behavior by the IOUs to further their cash flow at the expense of consumer service and safety. The result for the State is a transmission system that is woefully inadequate and distribution service that fails to meet the reliability expectations of today's computers networks.

The possible low point of the IOUs failure was the court proceedings that documented an IOU's strategy to increase cash flow by not incurring tree-trimming expenses, an action that resulted in a fire that cost people their homes, and endangered their lives.

This overwhelming indictment of the IOUs compels the State to consider revoking, or dramatically revising, the State's grants and commissions of service authority currently held by the IOUs. In place of the failed IOU monopoly approach, the formation of public private partnerships should be encourage that will have the capability of better fulfilling a role of service to the consumer and the State.

Observation #3 Fostering Innovation

Dramatic technological advancements have been achieved in electrical technology and software network applications that hold tremendous promise for lowering costs, increasing energy use efficiency, promoting conservation, dramatically improving reliability, providing more local control over energy policy and enhancing the environment.

However, to date these innovations have not been introduced in any meaningful way. This lack of innovation can be directly attributed to a market/regulatory structure that inhibits new entrants into the market and that also inhibits consumers from seeking out innovative service providers.

The ability to create a structure that fosters innovation and creativity can be the State's path out from its current situation of high prices, poor service and future threats of shortage and unacceptable price volatility. **As a result, NCCT strongly recommends that the CEC consider as its central strategy the fostering of consumer desired technologies (hardware and software) through the creation of a market and regulatory structure that removes entry barriers to innovations.**

This recommendation has several key nuances.

The first is that we are not recommending State financial subsidy programs to encourage innovations. Our State's own Silicon Valley is evidence that meaningful innovation can find funding for its implementation.

The second is that access to retail consumers, currently the overriding barrier in the State's regulatory model, is critical to fostering innovation. It is the consumer that ultimately defines whether an innovation warrants implementation. It is the consumer's endorsement (the purchase!) of an innovation that is the foundation for securing the funding to implement the innovation.

And third, while access to consumers is critical, this is not necessarily an endorsement of a totally retail competition model. Here the CEC needs the wisdom of at least Adam Smith, if not Solomon. The State must have a firm guiding hand in ensuring that consumers are fairly served and protected from manipulation. However, at the same time this guiding hand must not restrict deserving new entrants into the market, or unduly limit consumers seeking innovations. While deregulated industries like airlines, long distance telecommunications and cellular phone service have their flaws, their deregulation undeniably created lower prices and expanded (if not improved) service. NCCT has its own suggestions for a State electricity structure based upon a partnership between public power and private enterprise that will foster desired levels of innovations, but the critical point for this paper is that whether it is NCCT's model or some other model, it is absolutely critical that the State develop a strategy that fosters the fullest range of retail consumer access to innovation within reasoned levels of consumer protection.